Couples should debt plan when estate planning

What to do with joint credit cards upon death of a spouse

By Lisa Holton

Benjamin Franklin said, "In this world, nothing is certain but death and taxes." If he were alive today, he might want to add another certainty -- headaches for surviving spouses who don't figure credit issues and responsibility for debt balances into estate planning they've done as a couple.

Married couples -- particularly those who hold credit cards jointly -- need to put a special focus on this issue. And this is not a matter just for the elderly.

Dave Hanson, CEO of Spokane, Wash.-based Hanson Investments NW, is a certified financial planner and investment adviser who says the worst time to face what to do with joint or separate credit issues is after the funeral.

"The big thing I advise all couples I deal with is to plan for a worst-case scenario and *not* to have joint credit accounts whenever possible," says Hanson. "If both spouses have their own separate credit accounts, then if one or more of the parties face 'derogatory' status, such as late payments, charge-offs, bankruptcies, etc., then the other spouse's credit history won't be tainted by those."

Gary Altman, an estate and tax attorney and certified financial planner based in Rockville, Md., also advises against joint accounts and even against spouses taking authorized user cards on each others' accounts. "From an estate perspective, joint credit implies a 100 percent obligation of the surviving spouse for any debt remaining on a joint card. And if a spouse has access to a deceased spouse's account through an 'additional card' offer, the credit card issuer may try harder -- particularly in these times -- to see if that person can be made liable for any outstanding debt on the deceased's card."

Altman points out that in most states, the responsibility for paying off outstanding debt on a deceased's individual debt falls to the deceased's estate. And while this may not affect the surviving spouse's individual credit history, it still puts a ding in joint assets. In community property states (Alaska, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin), however, assets and debts accumulated during marriage -- regardless of who earned them or who signed loan documents -- belong to both spouses. This is where the letter of the law in each state becomes very important, Altman says. "Depending on the state, there are guidelines on how creditors get paid. In Maryland, credit card companies need to file a claim against the estate within six months. While the executor is supposed to notify them, there's no legal requirement to do it."

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> *Estate and tax attorney*

However, he adds that in the current troubled economic climate, credit card issuers have gotten much better about combing death records and making those estate claims. "I've seen a claim happen for as low as $132," he said.

If your spouse dies suddenly

You should call the issuers of all the credit cards you held jointly as well as the ones your deceased spouse had in his or her own name to let them know that your spouse has died. On joint accounts, ask the credit card company if it will issue a card in your name only. Some companies will require that you to open a whole new account in your name instead. Either way, you still need to maintain payments on balances on joint cards in order to protect your credit rating.

Another reason to report a death quickly, no matter how tough it may be to do so in a time of grief, is to prevent identity theft. Identity thieves read the obituary pages for leads on credit accounts that may go untended for a while -- finding and stealing credit information dumped in trash cans and parked in online accounts gets easier when no one is looking.

Keep in mind that credit card issuers, as mentioned above, will eventually catch on to the fact that a spouse has died, even if you don't make the report because as Altman mentioned, the credit card company may eventually find out about the death of your spouse independently. Additionally, the issuer may have a problem with you continuing to run up credit on that account, particularly if you wouldn't qualify for that amount of credit on your own.

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What will happen to your credit limit from a joint account if you switch it to your name only? If you don't have the credit history or income to justify that amount of credit, the issuer may elect to cut the size of the credit line.

It's also important to understand that even if spouses hold joint credit, they both have an individual credit score based on how well that credit is maintained. Barry Paperno, consumer operations manager for Fair Isaac Corp., the company that created the widely used FICO score, said removing individuals from a joint credit account, regardless of the reason for doing so, will not have any impact on the surviving individual's credit score.

He adds, however, "...that if an individual in this situation closes the account altogether, there is a potential impact. Closing an account can lower an individual's FICO score because it reduces the total amount of credit available to that individual, which can increase the individual's credit card utilization ratio. This is the ratio of balances to credit limits on revolving accounts."

3 steps to take now
Couples don't have to be facing a serious illness to prevent credit problems for a surviving spouse. Here are some measures to take now:

1. Make a formal estate plan. Working with a qualified tax or estate attorney or financial planner will give you and your spouse an overall picture of how you're handling all your money issues. That's the first step in establishing how well you're prepared for the host of issues you'll face if one of you spouse dies. Debt is only one piece of that puzzle. If a surviving spouse is not bringing in an income, it's particularly important to plan for that individual's future as well as that of the family's.

2. Eliminate joint accounts over time. If you are dependent on joint accounts for credit cards and auto loans, it makes sense to transition to individual accounts over time. In saying that, establishing independent credit doesn't mean building up credit that your spouse doesn't know about. One of the best ways to keep informed about each other's credit activity is to order all six of your credit reports -- one from each of the three major credit bureaus, in both your names -- and inspect and compare them.

3. Eliminate debt over time: The best situation to be in at any crisis point in one's life is debt-free. The long-term plan should be to use credit cards only at a time of need and pay off those debts religiously to build and maintain a good credit rating.

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Published: February 3, 2009

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